

Message Text

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ACTION EUR-25

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NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 NIC-01 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 ACDA-19

SAJ-01 IO-14 DRC-01 FEAE-00 FPC-01 NEA-14 /213 W

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TO SECSTATE WASHDC 1588

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 08008

E.O. 11652: GDS

TAGS: UK, PINT, PFOR

SUBJECT: QUARTERLY TRENDS REPORT: UNITED KINGDOM

BEGIN SUMMARY. THE PHONY WAR IN BRITISH POLITICS IS
OVER AND ALL PARTIES ARE GIRDING THEMSELVES FOR ANOTHER
GENERAL ELECTION, PROBABLY IN EARLY AUTUMN. AFTER EN-
JOYING A COMPARATIVELY FREE RUN FOR THE FIRST FIFTEEN
WEEKS OF ITS EXISTENCE, THE MINORITY LABOR GOVERNMENT
HAS RECENTLY SUFFERED A SERIES OF PARLIAMENTARY SETBACKS.
ITS WRIT IS SEVERELY LIMITED, ITS TENURE TENUOUS, AND
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ITS FUTURE COURSE OVERSHADOWED BY FORMIDABLE ECONOMIC

PROBLEMS.

THE NEW GOVERNMENT HAS PLACED ITS RELATIONS WITH THE UNITED STATES AT THE CORE OF ITS FOREIGN POLICY. THIS HAS ALREADY YIELDED BENEFITS TO US IN US-EC RELATIONS AND IN NATO. WE ARE UNEASY, HOWEVER, ABOUT LABOR'S DEFENSE REVIEW AND ITS PROCLAIMED INTENTION TO REDUCE MILITARY EXPENDITURES. WE ARE ALSO DISTURBED BY LABOR'S COMMITMENT TO SUBMIT THE QUESTION OF EC MEMBERSHIP TO THE ELECTORATE AND THE POSSIBILITY THAT THIS MAY EVENTUALLY RESULT IN BRITISH WITHDRAWAL. END SUMMARY.

1. POLITICAL SITUATION. DESPITE ITS LACK OF AN OVERALL PARLIAMENTARY MAJORITY, THE NEW GOVERNMENT HAS TAKEN FIRM AND AUTHORITATIVE CHARGE OF THE BUREAUCRACY, INTRODUCED A NUMBER OF ELECTORALLY POPULAR MEASURES (ON RENTS, PRICES, AND PENSIONS), AND PRESSED AHEAD WITH LEGISLATION TO REPEAL THE INDUSTRIAL RELATIONS ACT. MINDFUL OF ITS PAST REPUTATION FOR SAYING ONE THING IN OPPOSITION AND THEN DOING SOMETHING QUITE DIFFERENT WHEN IN OFFICE, IT HAS BEEN AT PAINS TO GEAR ITS EVERY ACTION TO ITS ELECTION MANIFESTO. IT IS STRIVING TO BUILD UP A RECORD ON WHICH IT CAN APPEAL TO THE ELECTORATE FOR A CLEAR-CUT MAJORITY.

2. THE CONSERVATIVES, ON THE OTHER HAND, HAVE BEEN SLOW TO REBOUND FROM THEIR UNEXPECTED DEFEAT IN FEBRUARY. HEATH CONTRIBUTED TO THE INITIAL DEMORALIZATION OF HIS FOLLOWERS BY DELIBERATELY AVOIDING ANY DECISIVE SHOWDOWN WITH THE GOVERNMENT. CALCULATING THAT AN EARLY GENERAL ELECTION COULD FAVOR THE GOVERNMENT, AND THAT THE DETERIORATING ECONOMIC SITUATION WOULD EVENTUALLY TAKE ITS TOLL, HE PLAYED A WAITING GAME. ONCE SAFELY PAST THE DANGER OF A JUNE ELECTION, HOWEVER, HE TOOK OFF THE WRAPS. CHOOSING HIS GROUND CAREFULLY, HE CHALLENGED AND BEAT THE GOVERNMENT ON ISSUES -- SUCH AS TAX REBATES TO TRADE UNIONS, AND INCREASED NATIONALIZATION -- ON WHICH THE GOVERNMENT COMMANDS LITTLE POPULAR ENTHUSIASM. ALTHOUGH LABOR TOOK OFFICE AS THOUGH IT HAD WON MAJORITY SUPPORT, THE LIMITS OF ITS MINORITY POSITION ARE NOW
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BECOMING PAINFULLY EVIDENT.

3. INDUSTRIAL RELATIONS. BEFORE DISSOLVING PARLIAMENT TO SEEK A FRESH MANDATE, WILSON IS ANXIOUS TO SECURE REPEAL OF THE INDUSTRIAL RELATIONS ACT. SLATED TO BE ACCOMPLISHED IN JULY, THIS FORMS AN ESSENTIAL INGREDIENT OF LABOR'S "SOCIAL CONTRACT" WITH THE TRADE UNIONS, A LOOSE AGREEMENT WHEREBY THE GOVERNMENT UNDERTAKES TO

CREATE A FAIR AND EQUITABLE SOCIAL ENVIRONMENT IN RETURN FOR WHICH THE UNIONS EXERCISE VOLUNTARY PAY RESTRAINT. WHATEVER PROMISE SUCH AN IDEALISTIC ARRANGEMENT MAY OTHERWISE HAVE HAD, FEW OBSERVERS EXPECT IT TO HOLD UP AGAINST CURRENT AND FUTURE INFLATIONARY PRESSURES. THE NEXT GOVERNMENT, REGARDLESS OF ITS POLITICAL COMPLEXION, WILL ALMOST CERTAINLY FEEL FORCED TO IMPOSE SOME FORM OF WAGE CONTROLS, AS WELL AS CONTINUE TO CONTROL PRICES AND PROFIT MARGINS.

4. WE ARE CLOSELY FOLLOWING THE LABOR GOVERNMENT'S INTENTION TO EXTEND ITS INFLUENCE OVER VARIOUS SECTORS OF BRITISH INDUSTRY, EITHER PARTIALLY OR COMPLETELY. THE

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GOVERNMENT HAS NOT YET SPELLED OUT ITS PLANS, WHICH ARE LIKELY TO AROUSE CONSIDERABLE POLITICAL CONTROVERSY AND WILL CERTAINLY BE AN ISSUE IN THE NEXT ELECTION. THE EXTENSION OF PUBLIC OWNERSHIP OR CONTROL WOULD BE LIKELY TO AFFECT SOME LARGE US FIRMS, SUCH AS ESSO AND FORD. IN ANY CASE WITH THE ADVENT OF THE BENEFITS OF NORTH SEA OIL, AN INCREASE OF GOVERNMENT REGULATION AND TAXATION OF THE DOMESTIC OIL SECTOR APPEARS LIKELY WHICHEVER PARTY IS IN POWER.

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5. ECONOMIC PROSPECTS. THE ECONOMIC PROSPECTS ARE EXTREMELY BLEAK. MOST FORECASTS AGREE THAT THERE WILL BE NO REAL GROWTH IN GROSS DOMESTIC PRODUCT (GDP) IN 1974. THERE WILL PROBABLY BE A SLIGHT DECLINE IN REAL OUTPUT. UNEMPLOYMENT IS EXPECTED TO RISE TOWARD THE END OF THE YEAR. AT THE SAME TIME, INFLATION IS EXPECTED TO REMAIN A MAJOR PROBLEM. RETAIL PRICES, WHICH ROSE OVER 9 PERCENT IN 1973, ARE EXPECTED TO INCREASE BY 17-20 PERCENT IN 1974. AMONG THE REASONS FOR THE PERSISTENCE OF THIS PROBLEM ARE THE RISE IN OIL PRICES, THE COAL MINERS' SETTLEMENT WHICH PUSHED UP PRICES OF ELECTRICITY, COAL, AND STEEL, AND THE WORKINGS OF THE

ESCALATOR CLAUSE IN THE UK'S WAGE CODE WHICH PROVIDES FOR AUTOMATIC WAGE INCREASES LINKED TO INCREASES IN THE RETAIL PRICE LEVEL. THE BALANCE OF PAYMENTS OUTLOOK FOR 1974 IS ALSO VERY GLOOMY. THE FORECASTS OF A TRADE DEFICIT RANGE FROM 4.5 TO 5 BILLION POUNDS (ABOUT 2 BILLION POUNDS OF THIS DUE TO INCREASED OIL PRICES), AN INVISIBLES SURPLUS OF ABOUT 1 BILLION POUNDS, AND A CURRENT DEFICIT OF 3.5 TO 4 BILLION POUNDS.

6. FOREIGN RELATIONS. THE NEW LABOR GOVERNMENT HAS FROM THE OUTSET GIVEN THE HIGHEST PRIORITY IN FOREIGN POLICY TO ITS RELATIONS WITH THE UNITED STATES. IT HAS CONSCIENTIOUSLY SOUGHT TO LIVE BY CALLAGHAN'S THREE C'S (COOPERATION, CONSULTATION, COORDINATION) IN ITS DEALINGS WITH US. IT HAS BROUGHT ITS INFLUENCE TO BEAR IN OUR FAVOR ON A NUMBER OF INTERNATIONAL ISSUES, E.G., THE SHAPE OF THE EC-ARAB DIALOGUE, THE WORDING OF THE ATLANTIC DECLARATION, THE RESOLUTION OF XXIV:6 NEGOTIATIONS. IN SHORT, ANGLO-AMERICAN RELATIONS ARE EXCELLENT.

7. WE ARE CONCERNED, HOWEVER, ABOUT THE IMPLICATIONS OF THE GOVERNMENT'S DEFENSE REVIEW AND ITS ANNOUNCED INTENTION TO REDUCE MILITARY SPENDING TO A LEVEL PROPORTIONALLY COMMENSURATE WITH THAT OF ITS WEST EUROPEAN ALLIES, AND IN KEEPING WITH ITS ECONOMIC PRIORITIES. THE DEFENSE REVIEW WILL PROBABLY NOT BE COMPLETED UNTIL THE FALL, BUT A GENERAL IDEA OF THE OPTIONS BEING CONSIDERED COULD EMERGE IN THE NEXT FEW WEEKS. WITH THE EXAMPLE OF
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HOLLAND'S SOCIALIST GOVERNMENT BEFORE US, WE SHALL WANT TO FOLLOW THIS QUESTION VERY CLOSELY.

8. WE ARE ALSO CONCERNED OVER SOME OF THE IMPLICATIONS OF BRITAIN'S RE-EXAMINATION OF ITS TIES TO THE EC. ALTHOUGH THE RESPONSIBLE MINISTERS HAVE EMPHASIZED THAT BRITAIN IS "NEGOTIATING TO SUCCEED", IT IS IRONIC THAT THIS SAME LABOR GOVERNMENT THAT HAS EXERTED ITSELF TO HARMONIZE US-EC RELATIONS SHOULD ALSO BE THE ONE TO PLACE IN JEOPARDY BRITAIN'S CONTINUED MEMBERSHIP IN THE EC AND WITH IT, OF COURSE, BRITAIN'S ABILITY TO INFLUENCE EC POLICIES. A CONSERVATIVE GOVERNMENT WOULD ALSO HAVE SOUGHT BETTER TERMS, BUT WOULD NOT HAVE OPENED UP THE POSSIBILITY OF WITHDRAWAL. THE PROCESS OF RENEGOTIATION IS NOT LIKELY TO BE CONCLUDED UNTIL FEBRUARY WHICH ALMOST CERTAINLY WILL BE AFTER THE NEXT GENERAL ELECTION. UNLESS LABOR IS VOTED OUT OF OFFICE, IT MAY FIND IT DIFFICULT TO AVOID A REFERENDUM ON THE ISSUE, EVEN THOUGH THIS WOULD BE THE FIRST REFERENDUM IN BRITAIN'S HISTORY. UNTIL THEN, THE FUTURE OF BRITISH MEMBERSHIP IN THE EC WILL REMAIN ONE OF THE BIGGEST QUESTION MARKS LOOMING OVER THE WHOLE COMPLEX OF ATLANTIC RELATIONSHIPS.

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